

How to Pre-Qualify or Estimate Maxium Loan Amounts

Example: Three person household; car loan of \$350 per month.

Step 1.	Determine gross annual income ; assume gross annual equals income for repayment ability:	\$30,000
Step 2.	Subtract adjustments, if any:	2 children x \$480 = \$29,040
Step 3.	Is Step 2 less than MODERATE LIMIT for household size and county?	Limit from table \$56,300 answer - YES
Step 4.	Is credit record acceptable?	YES
Step 5.	Determine gross monthly income (divide Step 1 by 12):	$\$30,000 / 12 = \mathbf{\$2,500}$
Step 6.	Determine the maxium allowed monthly payments on long term debt (multiply Step 5 by 0.41):	$\$2,500 \times 0.41 = \mathbf{\$1,025}$
Step 7.	Determine maxium monthly mortgage payment:	$\$2,500 \times 0.29 = \mathbf{\$725}$
Step 8.	Subtract existing monthly long term debt from Step 6 :	$\$1025 - \$350 = \mathbf{\$675}$
Step 9.	Determine allowed maxium PITI (the smaller of Step 7 or Sep 8):	\$675
Step 10.	Estimate approximate monthly taxes and insurance (TI) :	\$75
Step 11.	Estimate approximate monthly principal and interest payment (PI) subtract Step 10 from Step 9 :	$\$675 - \$75 = \mathbf{\$600}$
Step 12.	Use calculator or payment tables for 30-year loan and estimate interest rate and Step 11 PI :	Use *7.0%=\$90,000
Step 13.	What is allowed loan limit for County :	\$108,000
Step 14.	Determine loan limit for applicant (smaller of Step 12 or Step 13):	\$90,000

* Use current interest rate (7.0% used as example).